

ANALYSIS OF AMENDED BILL

Author: Alquist Analyst: Marion Mann DeJong Bill Number: AB 1218
Related Bills: SB 1739 Telephone: (916) 845-6979 Amended Date: 02/26/98
Attorney: Doug Bramhall Sponsor: _____

SUBJECT: B&CT Deduction/Interest Expense/Insurance Companies

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

This bill would allow corporations commercially domiciled in California to deduct interest expense attributable to dividends received from an insurance company subsidiary, which are excluded from income. This bill would further specify that Section 24425 (which denies a deduction for expenses relating to the production of income that is not included in the measure of California tax) would not apply to expenses related to deductible dividends received from insurance companies. This bill would provide that these changes are declaratory of existing law.

SUMMARY OF AMENDMENT

The February 26, 1998, amendments deleted the provisions declaring the Legislature's intent to examine the feasibility of allowing a deduction for interest expenses attributable to deductible dividends received from insurance companies and replaced them with language (the same as the June 30, 1997, amendments) to allow such a deduction.

Except for the Effective Date, Tax Revenue Estimate and Board Position, the department's analysis of the bill as amended June 30, 1997, still applies. The Effective Date, Tax Revenue Estimate and Board Position in the department's analysis of the bill as amended June 30, 1997, are replaced with the following.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___X___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department/Legislative Director Date
G. Alan Hunter 3/23/98

Agency Secretary Date

By: Date:

EFFECTIVE DATE

As a tax levy this bill would become effective immediately upon enactment and apply to income years beginning on or after January 1, 1998. However, the bill specifies that it is declaratory of existing law and thus would apply to all income years with open statutes.

TAX REVENUE ESTIMATE

Since the bill's language, which makes it declaratory of existing law, would have the effect of resolving interest expense issues currently in dispute in the taxpayer's favor it would have no revenue impact.

BOARD POSITION

Pending.

The Franchise Tax Board voted at its July 21, 1997, meeting to support the June 30, 1997, version of this bill.